

Reflections on risk-based approaches to financial sector

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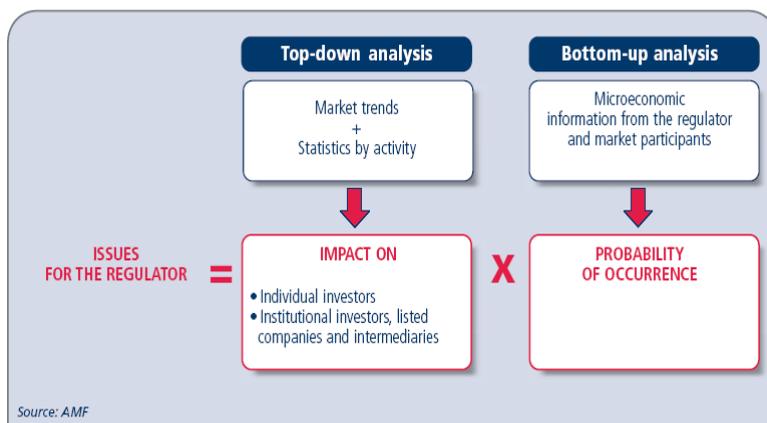
The risks' analysis of the French Securities Regulator

- Principle: a systematic analysis of trends observed inside the financial system, in order to identify and prioritize the sources of risk in connection with securities' regulator missions
- A tool of communication and exchange of views with main players of the financial markets, through a public consultation
- A way to structure the middle-run AMF work programme, in order to comply with the requirements of the « Better Regulation »
- The first exercise of this type has been realized in 2007

The areas under consideration

- The broad range of areas under the AMF's purview made the risk mapping exercise tricky
- Two sets of issues are considered:
 - Retail markets and the risks borne by individual investors
 - Wholesale markets, and risks born by financial intermediaries, listed companies, and institutional investors
- Before considering these specific issues, a broad analysis of the macroeconomic and financial environment is implemented

AMF risk-ranking method



An example of risk identified in the retail area

➤ Risk of mis-selling and poor investor understanding of some products

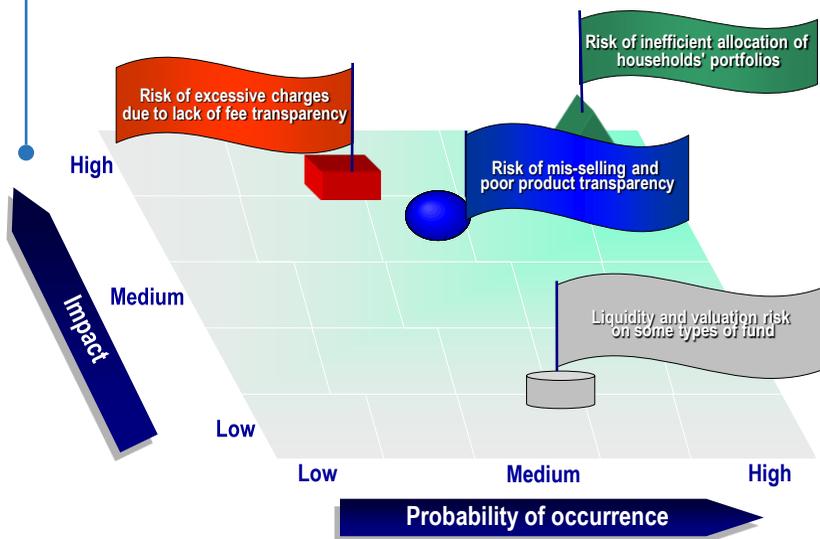
- Financial innovation and the increasing complexity of some investment products often make it difficult to comprehend how they work and assess the particular risk/return trade-off that they entail

- Since the revision of the UCITS Directive, the general public can benefit from advanced investment strategies, notably when volatility is high or markets are retreating

- However, the techniques that are used have engendered greater difficulty in harmonising transparency standards across Europe for what are increasingly complex products

- The consequent risk is that investors will misunderstand the characteristics of such products unless the marketing of them is systematically accompanied by advice tailored to the customer's situation

Risk-based analysis for 2008: retail markets



An example of risk identified in the wholesale area

➤ Governance risk for listed companies and lack of transparency in takeovers

- The growing use of certain techniques for trading or acquiring equity interests have raised a number of questions about the potential impact on market operations in general and on listed companies in particular

- The current volatility of equity prices creates market opportunities and a growing number of new types of market players are using investment vehicles based in offshore jurisdictions that lack transparency

- These developments require special vigilance with regard to several risks, in particular:

- o The risk of price manipulation by spreading rumours while taking positions or arbitraging in different classes of a company's securities;*

- o The risk of creeping takeovers after dissimulating the acquisition of significant interests and concert parties*

- o The risk of manipulating shareholder activism, by using methods that are opaque for the other shareholders and the market*

Risk-based analysis for 2008: wholesale markets

